

Vietnam Veterans Memorial Fund, Inc.

Financial Report
September 30, 2014

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Independent Auditor's Report

To the Board of Directors
Vietnam Veterans Memorial Fund, Inc.
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Vietnam Veterans Memorial Fund, Inc. (the Fund) which comprise the balance sheet as of September 30, 2014, the related statements of activities, functional expenses, and cash flows for the nine months then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vietnam Veterans Memorial Fund, Inc. as of September 30, 2014, and the changes in its net assets and its cash flows for the nine months then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

McLean, Virginia
March 23, 2015

Vietnam Veterans Memorial Fund, Inc.

Balance Sheet
September 30, 2014

Assets	
Cash and Cash Equivalents	
Unrestricted	\$ 398,428
Restricted for Education Center	270,395
Restricted for memorial maintenance	23,936
	<u>692,759</u>
Investments	
Unrestricted	3,139,343
Restricted for Education Center	4,371,773
Restricted for memorial maintenance	1,112,214
Deferred compensation	506,731
	<u>9,130,061</u>
Promises to Give, Bequests and Other Receivables, Net	3,311,263
Prepaid Expenses, Deposits and Other	371,308
Property and Equipment, Net	290,455
Construction in Progress – Education Center	13,584,786
	<u>17,557,812</u>
	<u>\$ 27,380,632</u>
 Liabilities and Net Assets	
Liabilities	
Accounts payable	\$ 503,761
Accrued expenses and other liabilities	464,182
Deferred revenue	141,345
Deferred rent	328,635
Deferred compensation	506,731
	<u>1,944,654</u>
Commitments (Note 11)	
Net Assets	
Unrestricted	15,484,596
Temporarily restricted	9,751,382
Permanently restricted	200,000
	<u>25,435,978</u>
	<u>\$ 27,380,632</u>

See Notes to Financial Statements.

Vietnam Veterans Memorial Fund, Inc.

Statement of Activities
For the Nine Months Ended September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Contributions	\$ 4,059,591	\$ 843,875	\$ -	\$ 4,903,466
Donated goods and services	1,918,953	1,560,762	-	3,479,715
Investment income, net	81,315	106,585	-	187,900
Site fees	89,400	-	-	89,400
Other	42,492	-	-	42,492
Special events	38,445	-	-	38,445
Net assets released from restriction	4,212,710	(4,212,710)	-	-
Total support and revenue	10,442,906	(1,701,488)	-	8,741,418
Expenses				
Program services:				
Memorial legacy	2,954,601	-	-	2,954,601
Education center	2,644,615	-	-	2,644,615
Ceremonies and events	396,611	-	-	396,611
The Wall That Heals	365,995	-	-	365,995
Education programs	150,443	-	-	150,443
Memorial maintenance	133,044	-	-	133,044
	6,645,309	-	-	6,645,309
Support services:				
Fundraising	1,734,628	-	-	1,734,628
Indirect costs	1,514,647	-	-	1,514,647
General and administrative	144,492	-	-	144,492
	3,393,767	-	-	3,393,767
Total expenses	10,039,076	-	-	10,039,076
Change in net assets	403,830	(1,701,488)	-	(1,297,658)
Net Assets				
Beginning	15,080,766	11,452,870	200,000	26,733,636
Ending	\$ 15,484,596	\$ 9,751,382	\$ 200,000	\$ 25,435,978

See Notes to Financial Statements.

Vietnam Veterans Memorial Fund, Inc.

Statement of Functional Expenses
For the Nine Months Ended September 30, 2014

	Program Services						Support Services					Total
	Memorial Legacy	Education Center	Ceremonies and Events	The Wall That Heals	Education Programs	Memorial Maintenance	Total Program Services	Fundraising	General and Administrative	Indirect Costs	Total Support Services	
Public relations	\$ 1,486,995	\$ 1,879,948	\$ 7,190	\$ 1,250	\$ -	\$ -	\$ 3,375,383	\$ 755	\$ -	\$ 19,285	\$ 20,040	\$ 3,395,423
Direct mail	1,032,805	190,812	-	42,650	-	-	1,266,267	1,327,944	-	-	1,327,944	2,594,211
Salaries and benefits	190,657	470,639	145,100	146,281	73,284	6,778	1,032,739	211,713	36,538	829,638	1,077,889	2,110,628
Facility and equipment rental	487	-	-	83,380	1,760	-	85,627	-	-	292,507	292,507	378,134
Professional fees	7,424	27,144	2,000	409	453	20,557	57,987	20,871	25,581	197,359	243,811	301,798
Communication campaigns	162,719	3,870	-	-	-	-	166,589	30,562	-	-	30,562	197,151
Caging	-	-	-	-	-	-	-	90,511	-	-	90,511	90,511
Travel and lodging	10,275	35,972	18,453	30,537	1,917	-	97,154	21,833	1,561	3,802	27,196	124,350
Depreciation and amortization	-	-	1,140	21,060	-	-	22,200	-	-	100,462	100,462	122,662
Consulting	1,139	9,052	27,374	885	14,114	4,600	57,164	10,458	40,478	4,766	55,702	112,866
Photos and video	5,183	2,785	83,916	-	-	-	91,884	-	-	-	-	91,884
Name additions	-	-	-	-	-	71,071	71,071	-	-	-	-	71,071
Printing and postage	13,374	5,701	21,671	435	3,297	-	44,478	1,489	613	20,434	22,536	67,014
Special events	151	2,158	48,957	-	54,671	-	105,937	10,523	-	-	10,523	116,460
Meals and entertainment	4,745	4,139	34,001	5,484	206	-	48,575	2,481	4,649	3,959	11,089	59,664
Website	34,318	9,905	4,631	675	71	71	49,671	3,380	3,695	-	7,075	56,746
Bank charges	-	-	-	-	-	-	-	-	-	44,450	44,450	44,450
Insurance	-	-	-	4,775	-	-	4,775	-	10,963	28,152	39,115	43,890
Supplies	4,329	351	-	7,701	670	-	13,051	1,938	142	22,212	24,292	37,343
Other	-	172	2,178	81	-	29,967	32,398	170	500	1,695	2,365	34,763
Telephone	-	1,967	-	883	-	-	2,850	-	-	19,097	19,097	21,947
Repairs and maintenance	-	-	-	4,264	-	-	4,264	-	6,654	4,486	11,140	15,404
Gasoline	-	-	-	15,000	-	-	15,000	-	-	-	-	15,000
Taxes, licenses and filings	-	-	-	245	-	-	245	-	13,118	-	13,118	13,363
Service provider fees	-	-	-	-	-	-	-	-	-	13,226	13,226	13,226
Capitalized costs for Education Center	-	-	-	-	-	-	-	-	-	(90,883)	(90,883)	(90,883)
	2,954,601	2,644,615	396,611	365,995	150,443	133,044	6,645,309	1,734,628	144,492	1,514,647	3,393,767	10,039,076
Indirect expense allocation	350,331	408,646	193,659	226,134	118,961	3,045	1,300,776	191,899	21,972	(1,514,647)	(1,300,776)	-
Total expenses	\$ 3,304,932	\$ 3,053,261	\$ 590,270	\$ 592,129	\$ 269,404	\$ 136,089	\$ 7,946,085	\$ 1,926,527	\$ 166,464	\$ -	\$ 2,092,991	\$ 10,039,076

See Notes to Financial Statements.

Vietnam Veterans Memorial Fund, Inc.

**Statement of Cash Flows
For the Nine Months Ended September 30, 2014**

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Cash Flows From Operating Activities	
Change in net assets	\$ (1,297,658)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	122,662
Unrealized and realized gain on investments, net	(137,871)
Decrease in allowance for doubtful accounts	(3,400)
Decrease in present value discount	97,496
Donated land held for sale	(47,543)
Deferred rent	(28,126)
Change in assets and liabilities:	
(Decrease) increase in:	
Promises to give, bequests and other receivables	768,134
Prepaid expenses and deposits	(175,007)
Increase (decrease) in:	
Accounts payable	193,117
Accrued expenses and other liabilities	(231,447)
Deferred revenue	90,945
Deferred compensation	39,560
Net cash used in operating activities	<u>(609,138)</u>
Cash Flows From Investing Activities	
Proceeds from sales of investments	3,548,674
Purchase of investments	(2,933,989)
Purchases of property and equipment	(12,003)
Construction in progress – Education Center	(708,808)
Net cash used in investing activities	<u>(106,126)</u>
Cash Flows From Financing Activities	
Contributions restricted to building	554,000
Net cash provided by financing activities	<u>554,000</u>
Net decrease in cash and cash equivalents	(161,264)
Cash and Cash Equivalents	
Beginning	<u>854,023</u>
Ending	<u>\$ 692,759</u>
Supplemental Schedule of Noncash Investing Activities	
Construction in process included in accounts payable	<u>\$ 88,527</u>

See Notes to Financial Statements.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Vietnam Veterans Memorial Fund, Inc. (the Fund) is a not-for-profit and non-ideological organization authorized by Congress in 1979 to build a memorial dedicated to honoring those who served with the U.S. Armed Forces in the Vietnam War. As described in Note 12, the Fund conveyed the memorial to the United States Department of the Interior in 1984.

Today the Fund continues to work with the National Park Service to preserve the sanctity of the Vietnam Veterans Memorial (the Wall) by maintaining the site, making name additions and status changes, and hosting annual Memorial and Veterans Day observances. The Fund has developed a series of outreach programs dedicated to education about the Vietnam War and promoting the Wall's legacy. This includes a secondary school curriculum; a nationwide teacher's network and annual summer conference; and a traveling half scale replica and museum.

The Fund is currently in the design stage of a construction project to build the Education Center (the Center) at the Wall, a visitor center to be built adjacent to the Vietnam Veterans Memorial which will further promote and conserve the legacy of the Wall. Upon completion of the Center, the Fund will donate the building to the United States Department of the Interior and will take on responsibility for the maintenance of the Center and its exhibits.

A summary of the Fund's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC). As required by the Non-Profit Entities Topic of the FASB ASC, the Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents: For purposes of reporting cash flows, the Fund considers cash equivalents to be all highly-liquid investments with maturities of three months or less when purchased, other than those held as part of the Fund's long-term investments.

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to current operations.

Financial risk: The Fund maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Fund has not experienced any losses in such accounts.

The Fund invests in a professionally managed portfolio that contains mutual funds, money market funds, and exchange traded funds. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Receivables: Receivables, including promises to give, are carried at original invoice or promise amounts less an estimate for doubtful receivables based on an annual review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. At September 30, 2014, management has determined that all receivables are considered fully collectible.

Unconditional promises to give: Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At September 30, 2014, management has determined that all promises to give are considered fully collectible.

The Fund recognizes bequests as receivables and revenue when the probate court declares the will valid.

Property and equipment: The Fund capitalizes all property and equipment purchased with a cost of \$1,000 or more. Property and equipment are stated at cost and are being depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from three to ten years. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Construction in progress – Education Center: The Fund is in the process of designing and constructing an Education Center which will be located on the National Mall adjacent to the Vietnam Veterans Memorial. Direct and indirect costs associated with the design and construction of the Education Center have been capitalized.

Valuation of long-lived assets: The Fund requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. The Fund had no impairments of long-lived assets during the nine months ended September 30, 2014.

Deferred rent: The Fund has a lease agreement for rental space in Washington, D.C. Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the balance sheet. In addition, rent abatement was provided, as well as a landlord improvement allowance for leasehold improvements. These benefits are being recognized on a straight-line basis over the life of the lease agreement.

Support and revenue: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Grants limited to a particular program or future time period are recorded as temporarily restricted. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed based on market trends for interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Permanently restricted net assets represent endowment funds that are not available for use by the Fund. Earnings on the endowment funds are either temporarily restricted for program purposes or available for operations as specified by the donor.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Classification of expenses: The Fund categorizes expenses as follows:

Memorial maintenance – costs related to the Fund's work in cooperation with the National Park Service to provide for special maintenance needs of the Vietnam Veterans Memorial in Washington, D.C., including the adjacent Three Servicemen statue, flagpole and the three-acre site where the Vietnam Veterans Memorial is located, to maintain the site's function as a place of reflection on the Vietnam War, a place of honor, recognition and remembrance of those who served and those who died, a place of spiritual connection with lost comrades and loved ones, and a symbol of healing for our nation. The Memorial has been visited by more than 80 million people, making it one of the most visited memorials on the National Mall.

Ceremonies and events – Costs associated with planning, organizing and conducting a number of ceremonies at the Memorial and elsewhere to bring people together to remember and honor the men and women who served in the Vietnam War and those who died. Ceremonies are conducted each year on Memorial Day, Veterans Day, Father's Day, Mother's Day, In Memory Day and Christmas to recognize, remember and honor those who served and died as well as to bring healing to their families, their friends and our nation.

The Wall That Heals – Costs incurred to promote healing and provide education about the impact of the Vietnam War through its traveling Memorial called "The Wall That Heals." The Fund exhibits a half-scale replica of the Vietnam Veterans Memorial in cities and locations throughout the United States, making it possible for millions of individuals who are unable to travel to Washington, D.C. to recognize, remember and honor those who served and died, and to experience a connection with lost comrades and loved ones. The traveling memorial also includes an educational museum and an information center to assist visitors in finding names on the Memorial.

Memorial legacy – Costs related to preserving the legacy of the Memorial and promoting healing through public outreach, and promoting visitation of the Memorial by the general public. The Fund provides information about the history of the Memorial and responds to questions from potential visitors. The Fund maintains a commemorative web site called the Virtual Wall that allows families, friends and veterans to post remembrances to those whose names are inscribed on the Memorial, extending the healing power and emotional impact of the Wall to millions of people through the Internet. More than 100,000 messages have been posted on the Virtual Wall. The Fund is also conducting a national Call for Photos to preserve the memory of those whose names are inscribed on the Memorial. The photos will be displayed in the Education Center.

Education programs – Costs incurred to educate students about the impact of the Vietnam War and preserve the legacy of the Vietnam Veterans Memorial through programs related to the education of students and teachers regarding the Vietnam War, the Vietnam Veterans Memorial and the Memorial's legacy in culture and society. The Fund's education programs reach teachers and students from grades 7 to 12, as well as higher education. The Hometown Heroes program, developed to promote a greater understanding of the Vietnam War, the Vietnam era and the personal sacrifice of the individuals whose names are inscribed on the Memorial, provides program information to schools and community organizations encouraging students to write biographies of men and women from their community whose names are inscribed on the Memorial. The information gathered by the students will be included in the Education Center being built.

Education Center – Costs associated with promoting future visitation by the general public to the Education Center once construction is complete. The Fund provides information about the important role the Education Center will play in preserving the legacy of those whose names are inscribed on the Memorial.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Fundraising – Costs associated with raising money to support the Fund's programs and activities, including the design and construction of the Education Center.

General and administrative – Costs related to maintaining the corporate entity and corporate governance.

Indirect costs – Costs that relate to the Fund's programs but are not specifically identified with any one program. Indirect costs are allocated to the Fund's programs and activities based on the level of effort in the statement of functional expenses.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Indirect costs are unallocated in the statement of activities. For the nine months ended September 30, 2014, \$1,300,776 of indirect costs was allocated to program services and \$213,871 was allocated to supporting services in the statement of functional expenses.

Donated goods and services: The Fund receives contributions of services and goods from businesses and other organizations toward the fulfillment of program objectives and general operations. Those services, which are objectively measurable, have been included in both revenue and the related functional expense categories and are recorded as contributions at their fair value at the date of donation.

Income taxes: The Fund is generally exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. In addition, the Fund qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Business income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Fund had no net unrelated business income for the nine months ended September 30, 2014. Management evaluated the Fund's tax positions and concluded that the Fund had taken no uncertain tax positions that require adjustment to the financial statements. Generally, the Fund is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2011.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in year-end: The Board of Directors voted to change the year-end of the Fund from December 31 to September 30 effective January 1, 2014.

Subsequent events: The Fund evaluated subsequent events through March 23, 2015, which is the date the financial statements were available to be issued.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 2. Investments

Investments at September 30, 2014, consist of the following:

Mutual funds	\$ 8,029,935
Exchange traded funds	568,164
Mutual funds – deferred compensation	506,731
Money market funds	25,231
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	<u>\$ 9,130,061</u>

Investment income for the nine months ended September 30, 2014, consists of the following:

Unrealized and realized gain on investments, net	\$ 137,871
Interest and dividends	93,386
Investment fees	(43,357)
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	<u>\$ 187,900</u>

Note 3. Promises to Give, Bequests and Other Receivables

Promises to give and other at September 30, 2014, consist of the following:

Promises to give	\$ 3,196,370
Bequests	100,743
Site fees, dividends, and other	14,150
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	<u>\$ 3,311,263</u>

Promises to give in one year or more are measured using the present value of future cash flows.

Promises to give made during 2012, 2013 and 2014 are discounted based on a rate of 2%. Promises to give made prior to 2011 are discounted based on a rate of approximately 4.49%.

Unconditional promises to give at September 30, 2014, consist of the following:

Promises to give in less than one year	\$ 1,417,144
Promises to give in one to five years	1,599,001
Promises to give in six years	300,000
Total promises to give	<hr/>
	3,316,145
Less discount to net present value	119,775
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Net promises to give	<u>\$ 3,196,370</u>

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at September 30, 2014, and depreciation expense for the nine months ended September 30, 2014, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation and Amortization
Trailer Exhibit	10 Years	\$ 404,603	\$ 329,446	\$ 75,157	\$ 13,740
Traveling Wall	3 – 10 Years	87,983	66,707	21,276	7,320
Furniture and Equipment	3 Years	101,518	40,199	61,319	16,351
Leasehold Improvements	6 years	278,420	232,016	46,404	34,802
TV World Wide Web	5 Years	107,478	44,783	62,695	26,870
Website	3 Years	94,315	70,711	23,604	23,579
		<u>1,074,317</u>	<u>783,862</u>	<u>290,455</u>	<u>122,662</u>
Construction in progress – Education Center	N/A	13,584,786	-	13,584,786	-
		<u>\$ 14,659,103</u>	<u>\$ 783,862</u>	<u>\$ 13,875,241</u>	<u>\$ 122,662</u>

Note 5. Fair Value Measurements

The Fair Value Measurement Topic of the FASB ASC established a fair value hierarchy that is based on the valuation inputs used in the fair value measurements and applies to all assets and liabilities that are being measured and reported on a fair value basis. This topic requires disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 Quoted market prices in active markets for identical assets or liabilities
- Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data
- Level 3 Unobservable inputs that are not corroborated by market data

To determine the appropriate levels, the Fund performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets or liabilities held by the Fund at September 30, 2014.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

	Level 1	Level 2	Level 3	Total
Assets				
Money Market	\$ 25,231	\$ -	\$ -	\$ 25,231
Mutual funds:				
Fixed income:				
Multisector Bond	1,362,604	-	-	1,362,604
World Allocation	1,170,030	-	-	1,170,030
Short Term Bond	436,563	-	-	436,563
Bank Loan (Fixed income)	423,277	-	-	423,277
High Yield Bond	24,597	-	-	24,597
World Bond (Medium)	889	-	-	889
Total fixed income	3,417,960	-	-	3,417,960
Equities:				
Market Neutral Funds (medium)	811,806	-	-	811,806
Mid-Cap Blend	465,027	-	-	465,027
Large Blend	308,448	-	-	308,448
Mid Cap Blend (Medium)	167,452	-	-	167,452
Large Value	117,451	-	-	117,451
Diversified Emerging Markets (Large)	88,641	-	-	88,641
World Stock (Large)	86,885	-	-	86,885
Real Estate (Medium)	78,118	-	-	78,118
Mid Cap Growth (Medium)	76,628	-	-	76,628
Foreign Large Growth	64,807	-	-	64,807
Mid Cap Value (Medium)	56,305	-	-	56,305
Large Growth	53,966	-	-	53,966
Utilities – Large Value	40,496	-	-	40,496
VIP Contrafund	16,436	-	-	16,436
Small Value	11,915	-	-	11,915
Small Growth	9,528	-	-	9,528
International equity	9,041	-	-	9,041
Commodities Precious Metals	3,134	-	-	3,134
Total equities	2,466,084	-	-	2,466,084
Blended (Fixed, equities and short term):				
World Allocation – Large	1,333,927	-	-	1,333,927
Large Blend	688,323	-	-	688,323
Long/Short Equity – Large	334,837	-	-	334,837
Money Market MSA	124,737	-	-	124,737
Foreign Large Blend	109,579	-	-	109,579
Capital Convertible	61,219	-	-	61,219
Total blended	2,652,622	-	-	2,652,622
Total mutual funds	8,536,666	-	-	8,536,666
Exchange traded funds:				
High Yield Bond	127,487	-	-	127,487
Large Growth	120,707	-	-	120,707
Small Growth	109,540	-	-	109,540
Preferred Stock	95,480	-	-	95,480
Intermediate-Term Bond	58,483	-	-	58,483
Real Estate (Medium)	56,467	-	-	56,467
Total exchange traded funds	568,164	-	-	568,164
Total assets	\$ 9,130,061	\$ -	\$ -	\$ 9,130,061
Liabilities				
Deferred compensation	\$ -	\$ 506,731	\$ -	\$ 506,731
Total liabilities	\$ -	\$ 506,731	\$ -	\$ 506,731

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

The fair value of mutual funds, money market funds, and exchange trade funds is determined based on quoted market prices, when available, or market prices provided by a recognized broker dealer; thus, they are categorized as Level 1. The fair value of the deferred compensation liability is based on observable market data, as the underlying assets are comprised of Level 1 investments; however, the liability is not actively traded and as a result, deferred compensation is considered a Level 2 item.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted contributions which are only available for specific program activities or supporting services or designated for future years. Temporarily restricted net assets were released from restrictions during the nine months ended September 30, 2014, due to the expiration of time restrictions or the satisfaction of purpose restrictions.

Changes in temporarily restricted net assets during the nine months ended September 30, 2014, are as follows:

	Balance December 31, 2013	Additions	Released	Transferred	Investment Income	Balance September 30, 2014
Purpose restricted						
Education Center	\$ 4,587,483	\$ 1,981,408	\$ (3,709,930)	\$ 554,000	\$ 40,010	\$ 3,452,971
Memorial maintenance and additional names	3,115,597	5,077	(141,165)	-	62,475	3,041,984
Endowment earnings:						
Education in Chair	55,957	-	-	-	4,100	60,057
The Wall That Heals	-	271,889	(271,889)	-	-	-
Ceremonies	-	89,726	(89,726)	-	-	-
Time restricted						
Education Center	3,693,833	56,537	-	(554,000)	-	3,196,370
	<u>\$ 11,452,870</u>	<u>\$ 2,404,637</u>	<u>\$ (4,212,710)</u>	<u>\$ -</u>	<u>\$ 106,585</u>	<u>\$ 9,751,382</u>

Note 7. Permanently Restricted Net Assets

Interpretation of relevant law: The Board of Directors of the Fund has interpreted the Washington, D.C. enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the Fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Fund and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 7. Permanently Restricted Net Assets (Continued)

Return objective and risk parameters: The Fund's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support the designated programs. We recognize and accept that pursuing a respectable rate of return involves risk and potential volatility. The generation of current income will be a secondary consideration. The Fund targets a diversified asset allocation that places a greater emphasis on equity securities investments to achieve its long-term return objectives within prudent risk constraints. The Fund has established a policy portfolio or normal asset allocation. While the policy portfolio can be adjusted from time to time, it is designed to serve for long-term horizons based upon long-term expected returns. The Fund has a preference for simple investment structures which will have lower cost, easier oversight, and less complexity for internal financial management and auditing.

Spending policy: The Fund will appropriate for expenditure in its annual budget a maximum of 100% of the earnings. There may be times when the Fund may opt not to take the maximum spending rate but rather to reinvest some of the annual return.

At September 30, 2014, the Fund's permanently restricted net assets consist of \$200,000, the Time Warner Chair in Education.

The following table summarizes the changes in the permanently and temporarily restricted funds during the nine months ended September 30, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 55,957	\$ 200,000	\$ 255,957
Additions – investment income	4,100	-	4,100
Endowment net assets, end of year	\$ 60,057	\$ 200,000	\$ 260,057

Note 8. Donated Goods and Services

The Fund uses advertising to educate the general public about the legacy of the Vietnam Veterans Memorial and the project to build the Education Center at the Wall. The production costs of advertising are expensed as incurred. Advertising expense for the nine months ended September 30, 2014, was \$3,724,555. This is included in public relations expense on the accompanying statement of functional expenses, and \$3,350,452 of that amount is donated advertising.

The fair value of donated goods and services support included in the statement of activities for the nine months ended September 30, 2014, is as follows:

Advertising – Education Center	\$ 1,872,540
Advertising – Memorial Legacy	1,477,912
Equipment rental – The Wall That Heals	82,850
Legal services – general and administrative	44,128
Other	2,285
	<u>\$ 3,479,715</u>

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 9. Allocation of Joint Costs

The Fund conducts activities that include a request for contributions, as well as a program component, such as information promoting the legacy of the Wall, recognizing and honoring those who served and died, gathering photos and stories to preserve their legacy, bringing healing to their loved ones, or educating the public about the need to build the Education Center. During the nine months ended September 30, 2014, these activities included a direct mail and a digital media campaign. The costs of conducting those campaigns include a total of \$2,631,992 of joint costs that are not directly attributable to either the program or fundraising component of the activities. Those costs were allocated as follows:

	Direct Mail	Digital Media	Total
Memorial legacy	\$ 1,070,407	\$ 162,719	\$ 1,233,126
Education Center	188,188	3,870	192,058
Fundraising	1,176,246	30,562	1,206,808
Total	<u>\$ 2,434,841</u>	<u>\$ 197,151</u>	<u>\$ 2,631,992</u>

Note 10. Employee Benefits

401(k) plan: The Fund has a 401(k) profit sharing plan (the Plan) covering all employees. Employees may participate in the plan after completing one month of service; however, employees are not eligible for employer contributions until completion of one full year and 500 hours of service. The Plan provides for safe harbor contributions of 3% of compensation, regardless of employee contribution to the Plan, and a matching contribution equal to 100% of each participant's elective deferrals up to a maximum of 2% of compensation. Additionally, the employer may make a discretionary profit sharing contribution not to exceed 25% of all eligible employees' compensation. Plan participants vest, for purposes of employer contributions, after two years of service. Total employer contributions to the Plan for the nine months ended September 30, 2014, were \$126,029.

Deferred compensation plans: The Fund has two deferred compensation plans in effect. The first is a supplemental executive retirement plan for executives who have been designated by the Board of Directors as eligible to participate. The second is a tandem executive deferral plan under IRC Section 457(f) (the Plan) for the President of the Fund. Benefits are determined based on both a fixed amount to be determined annually by the Board and potential additional allocation for an excess benefit amount. Total contributions of \$46,393 were made by the Fund for the nine months ended September 30, 2014. The Fund will contribute another \$106,178 to the tandem executive deferral plan over a three-year period with a minimum payment of \$45,357 required annually. The contributions to the plans are held in a professionally managed investment account and included in total investments on the balance sheet. At September 30, 2014, the deferred compensation investment and liability was \$506,731.

Note 11. Commitments

Office lease: The Fund has a non-cancelable operating lease agreement for office space, which expires in January 2020. At the beginning of the lease term, the lessor granted the Fund an allowance for leasehold improvements and rent abatement. In addition to base rent, the Fund is responsible for annual increases, as specified in the lease agreement and its proportionate share of increases in operating expenses. Rent expense, included in facility and equipment rental on the accompanying statement of functional expenses for the nine months ended September 30, 2014, was \$286,043.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 11. Commitments (Continued)

The Fund has a one-time right to terminate the lease as of October 4, 2015, with written notice to the landlord 12 months prior to the termination date which the Fund exercised during September 2014. In order to take advantage of a future termination before the contractual time of January 2020, the Fund paid a termination fee of \$116,426. The Fund will pay rent in accordance with the signed lease until it vacates the office space which can occur anytime between when the termination letter was sent and the end of the lease period. To date, there has been no formal termination date communicated to the landlord by the Fund, nor other lease agreements entered into. The Fund will continue to occupy the current office space in the near term at a minimum.

Direct mail contract: The Fund engages an outside third party to distribute educational materials to the public, which describes the purpose of the Fund and how the general public can participate in honoring Vietnam Veterans. The educational mailings also provide space for a fundraising appeal. This agreement renews annually and can be terminated upon 60 days written notice by either party. The contract calls for a fixed monthly fee of approximately \$29,000, plus the cost of materials and postage.

Construction contract: The Fund has a contract for the construction of the Education Center and the development and design of an exhibition program. The commitment in the contract for the construction includes a pre-construction fee of \$22,000 per month. It is cancellable at any time prior to the start of construction. The commitment in the contract for the design of the exhibition programs is approximately \$5,000,000. The contract is cancellable for any reason with 30 days written notice. Total costs incurred to date on this contract are \$4,736,900. The Education Center's anticipated construction start date is during the year ending September 30, 2018.

Note 12. Memorandum of Conveyance

On November 13, 1984, the Fund and the U.S. Department of the Interior entered into a Memorandum of Conveyance, which governs the conditions under which the Fund conveyed all rights, title, and interest in the Vietnam Veterans Memorial to the U.S. Department of the Interior.

Under the Memorandum of Conveyance, the Fund has the rights and responsibilities of:

- Participating with the National Park Service in ceremonies at the memorial on Memorial Day and Veterans Day.
- From time to time, adding names of those determined by proper process who have died as a result of injuries sustained in the Vietnam War.
- Maintaining residual funds to assist with repairs in the event of catastrophic damage to the memorial, requiring more than ordinary maintenance to restore the memorial to its original completed condition.

The obligation to provide ordinary maintenance and care for the memorial was previously given to the Secretary of the Interior under Section 4 of the Joint Congressional Resolution, authorizing the Fund to establish a memorial.